

Lesson 2: Banking

Pre-Lesson Vocabulary Practice

Read the words and their meanings on the right. Next carefully read the lesson, and try to find the words. These words appear in **boldfaced type** in the lesson. Then write sentences using these words and share them with a partner.

Example: *I stopped at an ATM to get money for the movie.*

Below is a list of words that appear throughout the lesson. Read each word and its definition. Then work with a partner to ask and answer questions using the words.

convenience – ease, something not difficult

to write a check – to fill in, or write down, payment information on a blank check

a bank account – money placed in a bank

a withdrawal – an amount of money removed from, or taken out of, a bank account

at one time – in the past, previously

have become less popular – are not as common as before

interest – money a customer earns that represents a percent of the balance in an account

branches – banks that belong to the same main bank, but are in different locations

savings account – a customer's bank deposits that earn special interest over a period of time

checking account – a customer's bank deposits used for writing checks

to charge (for a transaction) – to have a customer pay for a specific transaction or service

a statement – a report that shows the separate transactions in an account

a challenge – a test, an experience that might be difficult

telephone transfers – money moved from one account to another by making a telephone call

to bring (something) up to date – to make it current—for example, to correct a transaction register

ATM – a machine used to make transactions

to balance (reconcile) – to compare a transaction register with a bank statement

checkbook – a booklet that contains checks and a transaction register

cleared (as in checks) – checks that have been paid and cashed

credit – an amount earned

debit – an amount subtracted from a bank balance

debit card – a card used in place of a check

deposit – to put money into a bank account

interest rate – a percent that may change over time

minimum balance – money the bank requires in an account

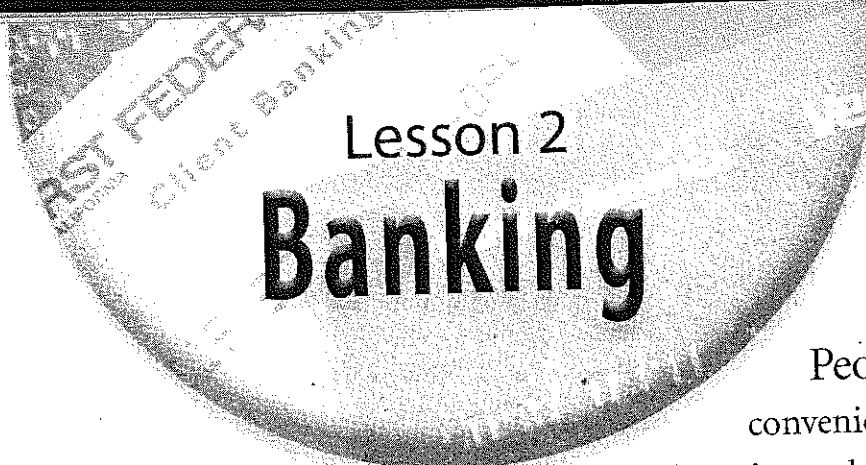
modest interest – a small amount of money earned

service charges – money a customer pays a bank for transactions

transaction – an action or operation

transaction register (passbook) – a booklet used to record bank transactions

withdraw – to take money out of a bank account



Lesson 2

Banking

People use banks for the convenience of having a place to **deposit** paychecks, to be able to write checks, and to **withdraw** cash from **ATMs**—automated teller machines. At one time, many people had **passbook** savings accounts in banks. A passbook is a record of deposits, withdrawals, and earned interest. As **interest rates** have dropped, passbook savings accounts have become less popular. (You will learn more about interest in Lesson 9.)

Banks charge for their services in a variety of ways. Some banks charge for every **transaction**. Other banks offer free services such as checking as long as the customer maintains a **minimum balance**. Banks often pay a modest interest on the balance that is kept in an account. Most banks do not charge their own customers for withdrawals from the ATMs at their branches. However, most banks do charge for withdrawals if a customer from another financial institution uses the bank's machines.

Every month banks send each checking account customer a **statement** that shows the details of the activity in the account. The statement lists deposits, checks that have **cleared**, earned interest, **service charges**, withdrawals from ATMs, and the use of **debit cards**. A debit card is a plastic card that can be used instead of writing checks. When a customer presents a debit card at a store, the amount of the purchase is deducted from her checking account.

The challenge for a banking customer is to compare personal financial records with the bank's monthly statement. Every **checkbook** comes with a **transaction register** to write down each **debit** or **credit**. To **balance** a checkbook, a customer should add every credit to the existing balance and subtract every debit. Sometimes checkbooks don't balance, and the customer will have to contact the bank to solve the problem.

Comparing personal financial records with the monthly statement from a bank is called **reconciling**. A customer's checkbook register may list checks that were written but have not yet cleared the bank when the monthly statement is printed. The mathematics of reconciling is simple:

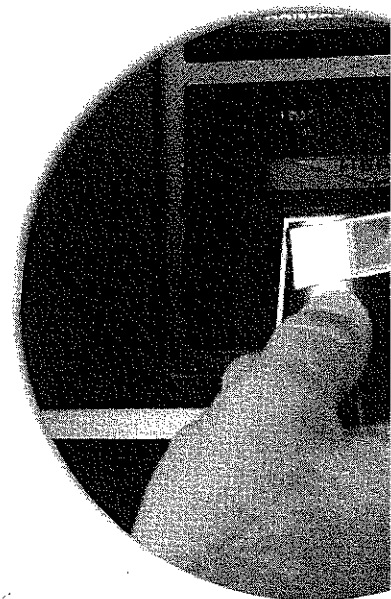
A customer should add:

- deposits
- interest earned

A customer should subtract:

- checks paid
- ATM withdrawals
- telephone transfers and payments
- service charges
- debit card purchases

To reconcile a checking account with a bank statement, first bring the checkbook register up to date by adding any interest earned and subtracting any service charges:



Then bring the bank statement up to date by adding late deposits, subtracting checks that have not cleared, and subtracting unlisted withdrawals from ATMs. The two corrected balances should agree.

Example At the end of June, Tim's checkbook balance was \$619.22. His banking statement for June showed a balance of \$639.57. The statement included an interest payment of \$0.63 and a service charge of \$2.75. The bank statement did not include a check for \$14.63 to a hardware store, a check for \$83.89 to a fuel oil company, an ATM withdrawal for \$140.00, a debit card purchase of \$20.15, or a deposit of \$236.20.

Solution To bring Tim's checkbook records up to date, add the interest and subtract the service charge.

$$\$619.22 + \$0.63 - \$2.75 = \$617.10$$

To bring the bank statement up to date, add the late deposit, subtract the two checks that have not cleared, subtract the ATM withdrawal, and subtract the debit card purchase.

$$\$639.57 + \$236.20 - \$14.63 - \$83.89 - \$140.00 - \$20.15 = \$617.10$$

Since the corrected balances are the same, the checkbook and the bank statement are reconciled.

To solve the problems in the next exercise, review:

- adding and subtracting decimals, page 230

Exercise 2

Part A

Use the following information to answer problems 1 to 5.

SITUATION

At the end of February, Lupé's checkbook register showed a balance of \$371.49. Her February bank statement showed a balance of \$357.97. The bank statement included \$0.26 interest and a service charge of \$2.50. The statement did not include an ATM withdrawal of \$60.00 that she made on February 26, and it did not show a check for \$53.72 that she wrote on February 25. A deposit that she made on February 24 of \$125.00 was not listed on the bank statement.

- 1 Correct Lupé's checkbook register for February by adding the interest she earned and subtracting the service charge.
- 2 To correct the bank statement, first add any unrecorded deposits to the total on the statement.
- 3 What is the total of the checks and withdrawals that do not appear on the bank statement?
- 4 Subtract the answer to problem 3 from the total in problem 2.
- 5 Is the checkbook balance reconciled with the bank statement?

